

Forecasting In These Difficult Economic Times



Christopher S. Mohr

K-12 Business Consulting, Inc.

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Agenda For This Session

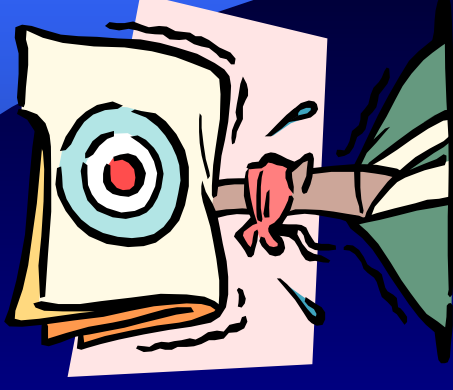
- Basic elements of a forecast
- Documenting your forecast and assumptions
- Doing the homework and data collection
- Our current economic climate
- How does the economic climate affect your data
- Communicating and setting the tone for your leadership team, Board, Commission, etc.

Goals For This Session

- **The Goal: to discuss common elements of forecasting, regardless of your governmental agency, in the attempt to give the attendee one or more useful tips to help improve odds in making an informed forecast in this the country's most turbulent economic times since the Great depression....**
- **Depression began in October 1929**
 - **Do you know when it ended?**
 - **What brought it to an end?**
 - **What is the implication for today?**

Forecasting From the Board/Commission Perspective

- Forecasting is the CFO's ability to:
 - Analyze past data
 - Gather current information affecting this data
 - Make informed assumptions about the interaction between the new information & the historic data
- *****AND THEN*****
- Estimate with perfection what that data will be in the future
... or so the story goes



We Are Surrounded By Forecasts

- Weather
- H1N1 Flue Deaths (health)
- Gender Neutral Mortality Tables 84 years old
- Take a Statin and lower your risk of heart disease by 56%
- The Buckeyes are (were) ranked 6th...oops!
- Getting a college education improves lifetime earnings by 315.5%
- According to the Gallup Institute I am a futurist as one of my top 5 strength finders
- As a society we are obsessed with knowing the future...even after death
- Every one is a forecaster to some extent

A Really Basic Element... Why Do Forecasts

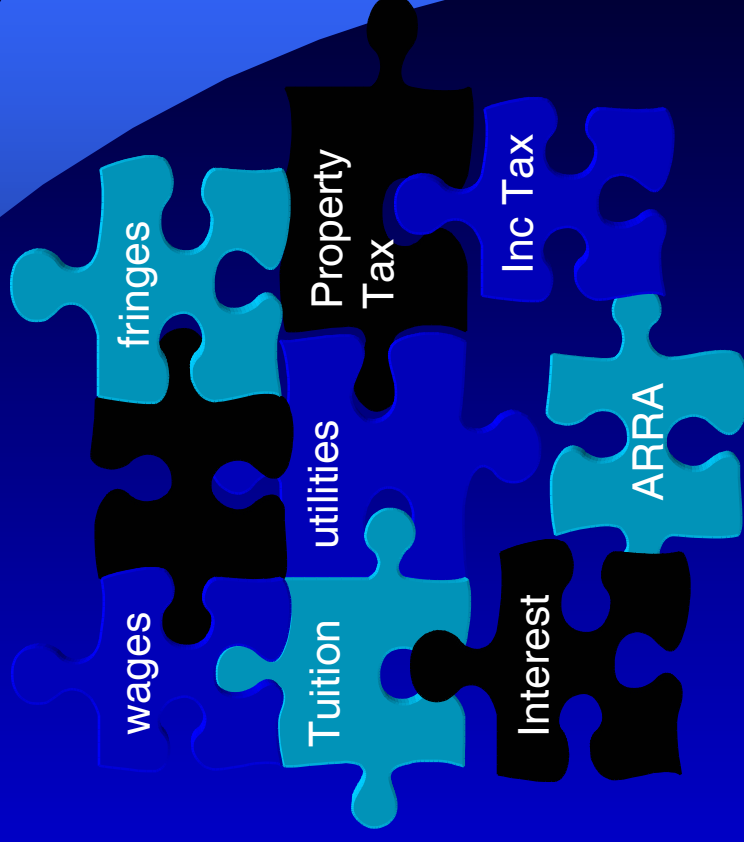
- **Improved Planning**
- **Improved Resource Management**
- **Sound Business Practice**
- **Communication to Governmental Board
and our Community**
- **Required by State Agencies**
- **Necessary in obtaining Credit Ratings**

Basic Elements of a Forecast

1	Timely	Is the data presented in adequate time to take actions
2	Realistic	Does the numbers projected look reasonable
3	Accurate	Review the process of generating the data
4	Reflects Programs	Are all the entities programs and changes included
5	Cost Vs. Benefit	How much cost and effort are spent obtaining the forecast

Spend Your Time Wisely

- Forecasting revenues /expenses/cash balances
- Spend 80% of time on areas where spend/receive 80% of resources
- Marginalizing variance in large numbers improves accuracy



The Second Golden Rule

“Don’t estimate what you can calculate when it comes to key items that add up to 75% to 85% range in either revenues or expenditures.”

- This may mean you have to get down and dirty to find components
- Do the research
- If you have to BWAG is it a conclusion a “reasonably informed person” would make?

Documenting Your Forecast

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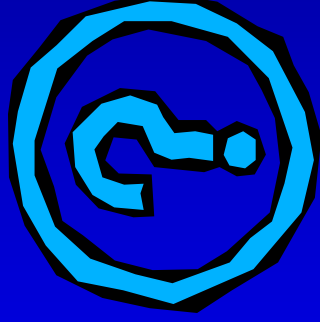
- Schools are required to submit in the ODE Format...3 yr actual & 5 projected
- The key is understanding
- Is it bottom line or where expenses exceed revenue
- Line 6.010 on school district forecasts
- Too often governments look only to cash balances when troubles began years earlier
- Document your assumptions in writing
- Document your calculations in your spreadsheets
- If something is a BWAG note that it is
- Review with your government leaders seek questions
- Lack of communication & understanding = trouble

Doing the Homework

- **More important than ever...not likely past performance indicative of future!**
- **Mine your own data**
 - Study receipts and expenses by month 2-3 years if possible get the items right that you can estimate
 - Look for patterns year over year
 - Include what you know presently
- **Research external sources**
 - Make contacts with County Auditor
 - Ohio Department of Taxation
 - Check ODT website for key information
 - Services for Governments data on TPP and Property values
- **Technical seminars**

Current Economic Climate

- Ohio's budget is influenced heavily by our national economy
- Effects of state tax reductions being phased in 2006 - 2010 (affecting 3 state biennium budgets)
- Major changes made in 2005 with HB 66 to tax collections in Ohio



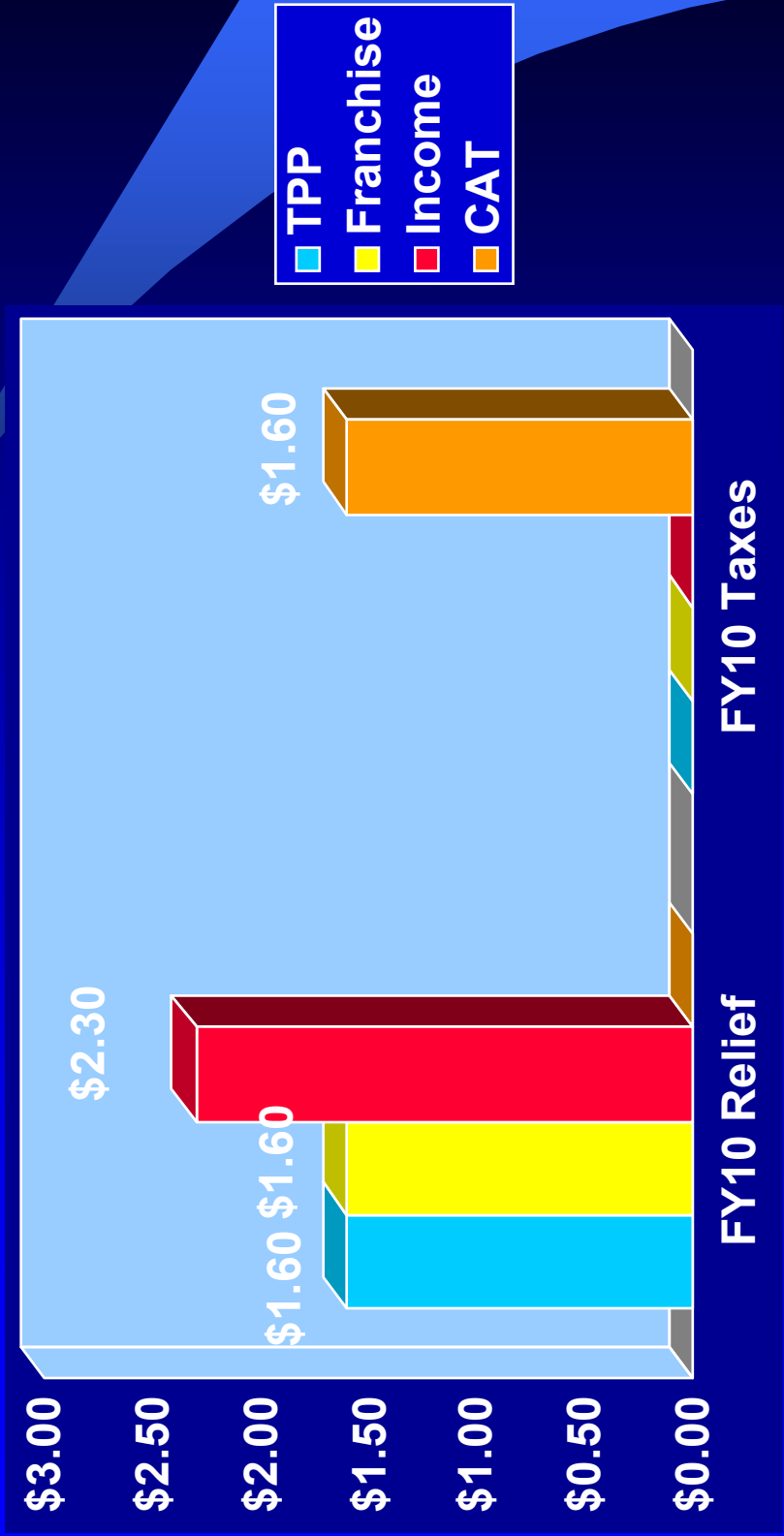
Review of HB 66 Ohio Tax Changes

Tangible Personal Property Tax	4 year phase out dated back to 1846
Commercial Activities Tax	5 year phase in, lower rate broader base
Corporate Franchise Tax	5 year phase out, lots of loopholes dated to 1902
Personal Income Tax	5 annual rate cuts of 4.2% = 21% reduction last year 2010

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HB 66 Tax Consequences in FY10

\$5.5B cuts - \$1.6B inc. = \$3.3B less state taxes



Recession & Ohio's Budget

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- A recession is negative growth in 2 consecutive quarters...its been 5 out of last 6 quarters...At August 6, 2009
- Current recession likely began in 1st Qtr. 2008
- In December 2008 Ohio Tax Commissioner noted that Ohio will face most serious erosion of revenues in the past 40 or 50 years.
- Unemployment 9.7% Nationally Ohio 11.1% ...At June 2009 worst unemployment in 26 years and growing
- In the last year 4 of the 7 largest bankruptcies in American history occurred:
 - #1 Lehman Brothers \$691 B
 - #2 Washington Mutual \$328B
 - #4 General Motors \$91 B
 - #7 Chrysler Motors \$39B
- Current recession longest and deepest since WWII

State's Budget ...It Gets Worse

- Ohio's tax revenues for Q1. 2009 sharpest decline on record. Fell 11.7% from Q1 2008
 - Personal Income Fell 17.3%
 - Corporate Income Fell 8.3%
 - Sales tax fell 8.3%
 - ~From State Tax Notes, July 27, 2009

Ohio General Revenue Fund (Billions of Dollars)

	FY08	FY09	FY10 (e)	FY11 (e)
Income tax	\$9.1	\$7.6	\$7.1	\$7.1
Sales tax	\$7.6	\$7.1	\$7.0	\$7.2
All Taxes	\$19.4	\$17.1	\$15.9	\$16.3

Ohio's Budget Challenges

- How will Ohio close the budget gap of \$3.2B in FY11
- Planning on \$2.4B in additional spending cuts
- \$933 additional revenues from VLT's....oops!
- 2 year wage freeze ~ 10 furlough days~ cut 3,000 jobs~close psychiatric hospitals & juvenile detention facilities
- Using 1x American Recovery and Reinvestment Act-2009 Funds
- Ohio's tax burden per capita based on FY06 data was 11.8% of personal income for state and local taxes...ranked 18th in the USA....U.S. Census data on tax collections
- Relief not likely from state tax increase but not sure about local taxes

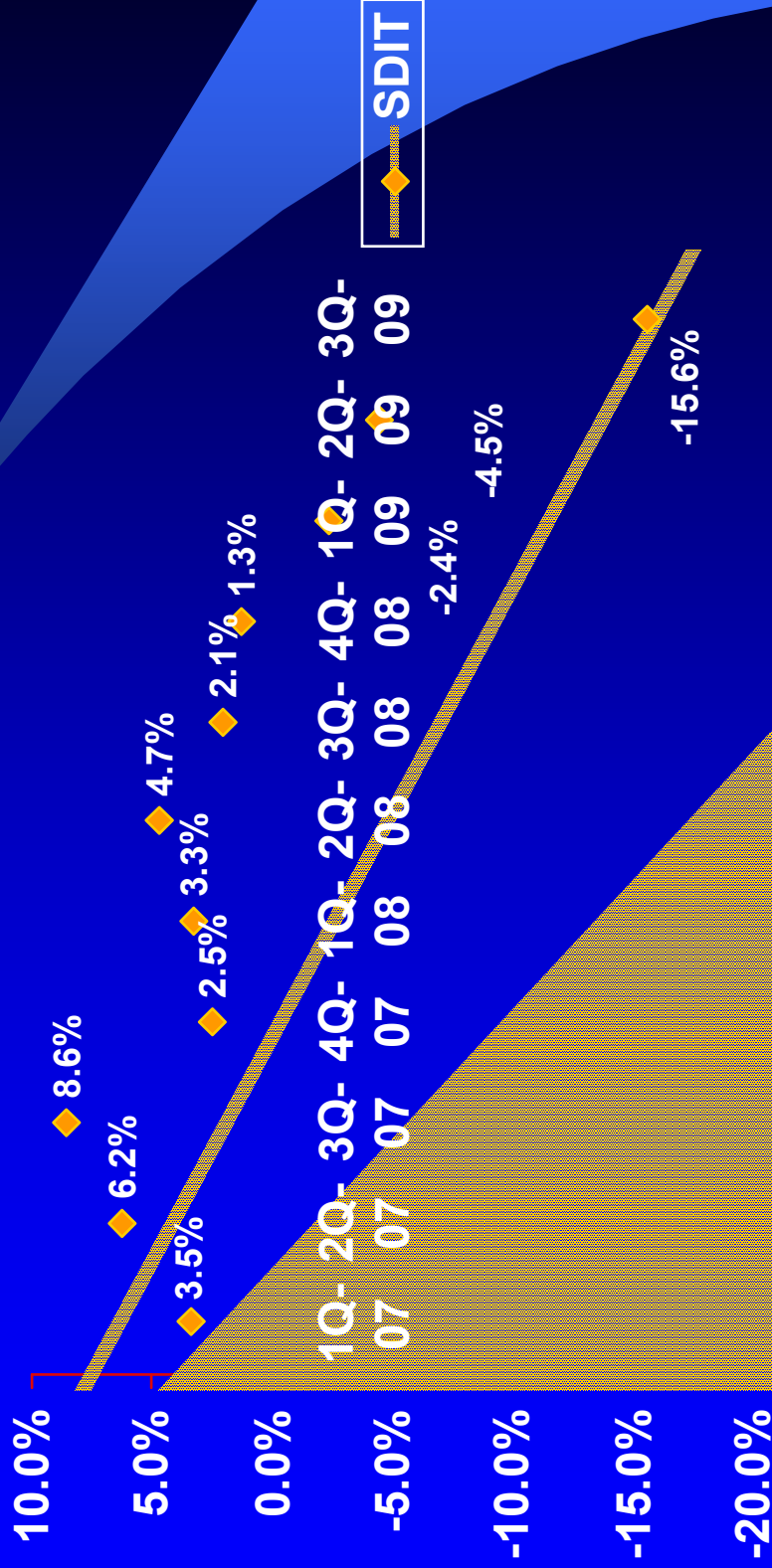
How Does the Economic Data Effect Your Data?

- That is the Million Dollar Question?
- This is an area you may not have spent significant time in the past
- How to get it
 - Make contacts ask for information
 - Attend seminars and gather data
- How you could use it
 - Look at your trends versus state or county
 - What are you seeing monthly, quarterly, etc.
 - Look for emerging trends that tie to economic data



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SDIT Collection Example

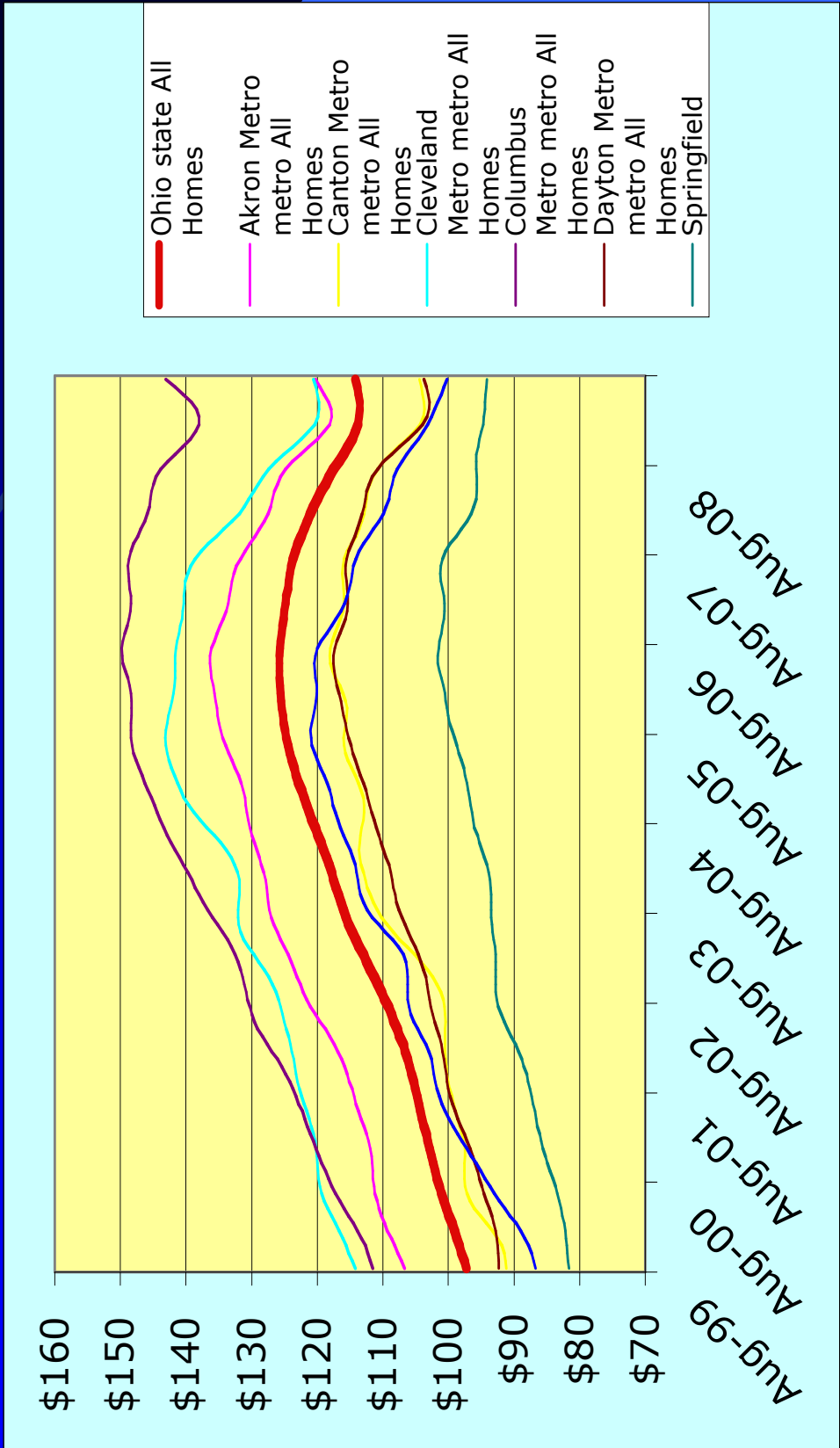


Income Collections Will Lag

- SDIT Collection has gone down in districts I am working with
- SDIT payments month following quarter....July 2009 down around 15%
- State showed personal income down about 17.5%...these are correlated
- Economy appears to be getting better unemployment still rising
- Slow growth is predicted for several years in 2% GNP range...income will come back slowly
- Watch employment numbers monthly
- Earned income or state income
- Have companies closed in your area or laid off employees

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Property Value Data (in Thousands of Dollars)



Property Values and Taxes

- **Most of Ohio's entities collect some form of property taxes**
- **Those who have inside millages or who are on the 20 mill floor likely have seen some form of reduction in collections in past 2 years**
- **You may experience a loss due to:**
 - **Timing ~ County reapp/update every 3 years**
 - **Delinquencies~ they are up affecting collections**
 - **Sheriff sales~ lowering AV's**
 - **BOR Complaints are up in many counties**

Property Taxes

- Don't forget if taxes go down so do R&H reimbursements....a state revenue source
- HB 920 works in reverse for outside millages can help buffer losses
- If AV's fall remember to look at your bond millages to make sure you & your county auditor agree you have enough gross mills to pay debts
- Remember that AV lagged down and will lag up.
- Contemplate what the AV will mean in your new levy cycles (may mean higher millage levels)
- For school systems lower AV's may mean added revenues after FY11 currently on a gains cap.
- Line BA on the PASS formula charges off 22 mills on lower AV FY10&11 budget and dropping 2 mills over the next 2 bienniums...could increase state revenue if funded

Communicating & Setting Tone

- **Communicate to key stakeholders**
 - **Boards and commissions**
 - **Leadership teams**
 - **Community leaders**
- **Frequency- monthly, quarterly and annually**
- **Explain variances and emerging trends**
- **Everyone should know we are in unprecedented times...but remind them!**
- **Frequent communication will help reduce surprises**
- **Share the news and set the stage for possible worse news if trends point to it**

Where Do You Think Things Are Going Right Now...

- With your local property values?
- With your local income levels?
- With your local sales taxes?
- With the state of Ohio's revenues?
- Do you think ARRA funding will be continued in next biennium?
- Too often we CFO's, Treasurer's, Controllers, Finance Directors... are treated like Nostradamus when we put it on paper it is fact!
- Exercise to re-enforce learning:
 - Ask your Board/Commission about their thoughts on these issues...see what their insights are...

Summary

- **These are uncertain times**
- **Past is no longer an indicator of the future**
- **Broaden your data gathering**
- **Do the homework to collect the information**
- **Look for ways to tie broader data to your data**
- **Document your forecast assumptions & calculations**
- **Communicate and set the tone**
- **Pray for an improving economy
we are not insulated**

